# Tax Information for People 50 and Over

Presented by Jason McDonald, EA, LTP
Liberty Tax Service
11070 SW Beaverton Hillsdale
Beaverton OR 97005
503 644-8269

# Retirement Planning

- Age 50 - you can contribute additional amounts to your IRA or employer plan
- Age 59 1/2 - you can begin to withdraw money from your IRA or employer plan without paying the additional 10% tax
- Age 65 - your standard deduction increases; you may be eligible for the credit for the elderly
- Age 70 1/2 - you must begin to receive a required minimum distribution from your IRA or pension (if you are retired when you reach 70 1/2) by April 1st of the year following the year in which you reach 70 1/2)

# Social Security Benefits

Social security benefits include not only old age benefits, but also survivor and disability benefits. Part of tier 1 railroad retirement benefits is treated as social security benefits for tax purposes. If you were born before 1938, you can retire at age 65 and receive your full social security benefits. The full retirement age will gradually increase to 67 for people born in 1960 or later. rate.

# Social Security Benefits

Full retirement age is defined as the age a person can receive full benefits when first applying for social security. You can retire as early as age 62 and take your benefits at a reduced rate.

# Are My Benefits Taxable?

- Depending on your other income and your filing status, your benefits may be entirely tax-free or you may have to include up to 85% of the benefits in your gross income. The taxable amount of your social security benefits, if any, depends on the total of the amount of the benefits you receive and all of your other income.

# Are My Benefits Taxable?

- Generally as this total amount of social security benefits and other income increases, a greater percentage of your benefits are subject to tax. If your only income was your social security benefits (or the part of tier 1 railroad retirement benefits treated as social security benefits) your benefits are generally not taxable and you probably do not even have to file a tax return.

# How Do I Figure the Taxable Amount of My Benefits?

- Social security benefits are reported to you and to the IRS on Form SSA-1099. You use the amount shown in box 5 of the SSA-1099 to figure if any of your benefits are taxable. If half the box 5 amount plus your total income, including tax exempt interest, exceeds a base amount, some percentage of your benefits will be taxable. If you are married, filing jointly and both spouses receive benefits, use one half of your combined benefits.

# Base Amounts

- Your base amount is:
- $25,000 if your filing status is single, head of household, or qualifying widower.
- $25,000 if your filing status is married filing separately and you **lived apart** from your spouse for **all** of the tax year,
- $32,000 if your filing status is married filing jointly, or
- $0 if your filing status is married filing separately and **lived with** your spouse at any time during the tax year.

# Social Security Benefits Worksheet

- You figure the taxable portion of your benefits by using a Social Security Benefits Worksheet. Most taxpayers use the worksheet that is included in the **Form 1040** instructions. Report taxable social security benefits on line 20b of Form 1040. The net benefits shown in box 5 of Form SSA-1099 are entered on line 20a. If your social security benefits are not taxable, enter 0 line 20b.

# Lump-sum Payments

- In any year, you may receive a **lump-sum payment** (a retroactive payment of benefits for a prior year or years. Even if this payment includes benefits for an earlier year, the taxable part must be included in your income in the year you receive the benefit payment. Do not confuse the lump-sum benefit payment with the lump-sum death benefit that SSA pays to many of its beneficiaries, no part of which is included in taxable income.

# What % is Taxable?

LIBERTY TAX SERVICE®

- Generally, you use your current year income to determine if any part of the lump-sum payment is taxable. However, you may be able to use the income from the earlier year(s) if this lowers the amount of the taxable part of the lump-sum payment. Either way, you report the taxable part of the benefits on your current year **Form 1040.**
- You do not file an amended return for the earlier year.

# Are You Considered Self-employed?

- **WHY DO I HAVE TO *PAY* SELF-EMPLOYMENT TAX (SOCIAL SECURITY AND MEDICARE TAX) IF I AM *RECEIVING* SOCIAL SECURITY?**

- If you have a business, make and sell crafts at the flea market or you are self-employed in any other way, you may have to **pay** self-employment tax (social security and Medicare tax) even if you are **receiving** social security. Schedule SE must be filed if your income after expenses is more than $400.

# IRAs, 401Ks, Pensions &, Annuities

- Retirement plans include IRAs, 401Ks, pensions and annuities. The money you put into these plans is called a contribution; plan payments made to you are called distributions. Because many older taxpayers receive payments from retirement plans, the focus will be on the tax consequences of distributions. The IRA discussion refers to traditional IRAs. Roth IRA distributions generally are **not** taxed.

# Are My Distributions Taxable?

- Generally, your distributions are taxable at your regular tax rate. The distributions are reported on **Form 1099-R**. Box 1 shows the amount  received during 2007. The taxable amount is shown in box 2a. Many of you can simply enter the box 2a amount on your tax return whether the distribution is from an IRA, a pension, or an annuity.

# Are My Distributions Taxable?

- If it is an IRA distribution, the IRA box in box 7 will be checked. IRA distributions are taxable if in the year of contribution you deducted the contribution amount from your income.

# Are My Distributions Taxable?

- If you ever made nondeductible contributions (you did not deduct the contribution in the year it was made) and reported this on **Form 8606**, part of your distribution will be tax-free. Form 8606 is used to figure the **taxable** amount.
- If you did not report the nondeductible contributions, your entire distribution must be reported as taxable income.

# Simplified Method

- If you paid part of the cost of your pension or annuity, part of your distribution will be tax-free. Box 2a should show only the taxable amount.
- If it does not, you will have to figure the taxable part.

# Simplified Method

- To make this calculation, most of you will use the Simplified Method worksheet in your **Form 1040** instructions. Using this method, you find the tax-free part of each monthly payment by dividing your cost (what you paid into the plan) by the total number of expected monthly payments. Your cost should be shown in box 5. The total number of payments is fixed by contract or taken from tables on the worksheet. You must figure the tax-free part each year.

# Simplified Method

- For pensions or annuities that began after 1986, the entire payment is taxable after your cost is recovered.
- If your start date is before 1987 and you recovered your cost under the Three-Year Rule, your pension is fully taxable.

# Using the General Rule

- If you purchased an annuity from a commercial organization, such as an insurance company, you will probably have to use the General Rule to figure the tax-free part of each payment. Under the General Rule, you figure an exclusion percentage. You then multiply your annuity income by this percentage to find the tax-free part. Once the tax-free amount is determined it remains the same in future years. For information about the General Rule, see IRS Publication 939.

# Lump-sum Distribution

- A lump-sum distribution is the payment to you in one tax year of the entire balance from all your employers' pension, profit sharing, or stock bonus plans. Lump-sum distributions are also reported on a Form 1099-R. The total distribution box in box 2b will be checked. Unless you rollover (transfer) the lump sum to an IRA, you must pay taxes on the amount shown in box 2a.

# What Form Do I Use?

- If you were born before 1936, your lump-sum distribution may qualify for special tax treatment and could result in tax savings. The letter A in box 7 indicates that your distribution may qualify. The part of the distribution allocable to participation in the plan before 1974 may qualify as capital gain taxed at a 20% rate. This amount will be shown in box 3. The tax on the rest of the distribution may be figured by using 10-year averaging.

# Form 4972

- If you use these optional methods in 2009, you may not use them for any future distributions from the same plan.
- Use **Form 4972** to figure these special taxes. IRS Publication 575 illustrates how to complete the form.

# What Else Should I Know About Distributions?

- Generally distributions from retirement plans made to you before you reach age 59 1/2 are subject to an additional 10% tax. If the early distribution is made because you are totally disabled or for certain other reasons the 10% additional tax does not apply.

# What Else Should I Know About Distributions?

- If your plan is an IRA, you must begin receiving distributions by April 1 of the year that follows the calendar year in which you reach age 70 1/2. For other pension plans, you can start the later of this date or April 1 of the year that follows the calendar year in which you retire. A required minimum distribution must be made each year. If it is not, you must pay a tax equal to 50% of the required minimum distribution that was not distributed. For 2009 RMD was not required.

# What Else Should I Know About Distributions?

- If you retire on disability, you must report your disability payments as income. These payments are taxed as wages until you reach the minimum retirement age set by your employer.
- Then they are taxed as a pension.

# Questions?

- Liberty Tax Service has 3,000 offices in U.S. and Canada.
- 866-871-1040 rings into nearest office from a landline phone.
- Visit www.libertytax.com for the latest company news.
- Liberty Tax is a National Sponsor of the March of Dimes, Cell Phones for Soldiers, and Stop Hunger Now.


Thank You

Presented by Jason McDonald
Liberty Tax Service
11070 SW Beaverton Hillsdale
Beaverton Or 97005
503 644-8269